



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 12/17/2003

GAIN Report Number: CA3086

Canada

Agricultural Situation

This Week in Canadian Agriculture, Issue 46

2003

Approved by:

Gary Groves
U.S. Embassy

Prepared by:

George Myles and Matthew Cahoon

Report Highlights:

CWB Announces Non-Durum Wheat Pool Account Deficit * Canada Invites Comments on Proposal for Year-Round Imports of U.S. Feeder Cattle * Softwood Lumber Production Up for 2003 * China and Canada Aim To Double Trade by 2010 * Support Prices for Butter and Skim Milk Powder to Increase * Dairy Price Hike Signals Urgent Need for Action Says Foodservice Group * Dairy Processors Association of Canada Formed * Georgian Bay Milk Co. Appeal to be Heard by Ontario Tribunal * Canadian Transportation Agency Rules Demurrage Not Subject to Revenue Cap * New Trade Minister Speaks Out on U.S. Softwood Injury Determination...and more.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1]
[CA]

This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives.

Disclaimer: Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

CWB ANNOUNCES NON-DURUM WHEAT POOL ACCOUNT DEFICIT: The Canadian Wheat Board (CWB) on December 15 announced the final payments that farmers will receive for durum, feed and designated barley marketed by the CWB in the 2002/03 crop year, which began August 1, 2002 and ended July 31, 2003. There will be no final payment for wheat because total earnings in the wheat pool account are C\$9.86 per metric ton less than what was actually distributed to farmers through initial and adjustment payments. Based on a pool size of slightly less than 8.7 million tonnes, the CWB has calculated the shortfall at C\$85.4 million. Payments that farmers have received to date will not be affected. Deficits are covered by the Government of Canada (GOC) by virtue of its guarantee of initial payments. The CWB has submitted its financial statements to the GOC. The GOC will conduct its own independent review of the amount and will consult with the CWB in this regard. According to the CWB, the shortfall in the wheat pool was the result of a number of extra-ordinary factors that affected pool returns in 2002-03, including the late harvest and drought-reduced crop, the market share that was gained by countries like Russia, Ukraine and Kazakhstan and the surge in the Canadian dollar. However, Wheat Board critics, including many wheat farmers, claim the shortfall was due to mismanagement. Many are demanding greater accountability from the CWB as well as from the Canadian government.

CANADA INVITES COMMENTS ON PROPOSAL FOR YEAR-ROUND IMPORTS OF U.S. FEEDER CATTLE: The Canadian Food Inspection Agency (CFIA) has released a discussion paper on the year-round importation of U.S. feeder cattle. Currently, the entry of U.S. feeder cattle to Canada is restricted to the October 1-March 31 period due to CFIA requirements regarding bluetongue and anaplasmosis. Interested parties have until February 15, 2004 to submit comments to CFIA. Since early 2000, the Canadian Cattlemen's Association (CCA) has advocated an extension of the conditions for winter importation. The CFIA discussion paper lists options, one of which would set certain conditions on summer importation such as unique ear-tag identification and a "direct to slaughter" requirement for U.S. feeders exiting Canadian feedlots. On the animal health side, the CCA has long believed that a policy incorporating such procedures imparts minimal risk to Canada's beef herd and to wildlife. On the political side, the CCA has consistently pressured the GOC to move quickly on the issue of year-round access, particularly since the U.S. is currently studying a regulatory proposal to establish Canada as a minimum risk region for BSE, which would allow U.S. imports of Canadian cattle under 30 months of age for immediate slaughter and of certain other ruminants. The full text of the CFIA's discussion paper is available on the CFIA website at: <http://www.inspection.gc.ca/english/anima/heasan/import/bovine.shtml>

SOFTWOOD LUMBER PRODUCTION UP FOR 2003: According to available production data from Statistics Canada for 2003, post estimates that softwood lumber production will total 78.7 million m³, up more than 9% from 2002 levels due to Canadian mills increasing production to lower unit costs. For 2004, Post forecasts a slight decrease in production to 78.0 million m³ due to consolidation in the Canadian milling industry. Exports of wood and wood products for the first nine months of 2003 are down 2% relative to the same period in 2002, at US\$9.1 billion. However, annualizing for 2003 would result in total domestic exports

of US\$12.1 billion, slightly higher than total domestic exports for 2002. The U.S. remains the largest export market for Canadian wood and wood products. For more information, see Post's Solid Wood Products Annual Report (GAIN CA3083).

CHINA AND CANADA AIM TO DOUBLE TRADE BY 2010: According to the December 11 *Agence France Presse*, Chinese Premier Wen Jiabao said he former Canadian Prime Minister Jean Chrétien had set a goal of doubling their countries' bilateral trade by 2010. Wen told a lunch of Canadian and Chinese business leaders that bilateral trade currently stood at about US\$8 billion. But he said this should increase because Canada "is richly endowed with natural resources and high technology" and China "has a large pool of labor" and a growing consumer market. Earlier, the prime ministers witnessed the signature of agreements including an order by the China National Chemicals and Export Cooperation (Sinochem) to buy 1.65 million tonnes of potash next year and the sale by the Canadian Wheat Board of 500,000 tonnes of wheat, worth C\$100 million (\$75 million). Other agricultural sector agreements signed included increasing phyto-sanitary cooperation, establishing a working group on microbiological and chemical residue in animals used for human food, and dairy farm cooperation to help China improve its milk quality. Wen, in his speech to business leaders, noted that China was now Canada's third largest trading partner and Canada ranked 10th among China's trading partners. Outside Thursday's agreement, Wen said China was already importing more than one million tonnes of Canadian potash every year. According to the CWB, since 1961, when the China National Cereals, Oil and Foodstuffs Import and Export Corporation (COFCO) and the CWB began trading, over 120 million tonnes of western Canadian wheat and barley have been sold to China.

SUPPORT PRICES FOR BUTTER AND SKIM MILK POWDER TO INCREASE: In a December 15 news release from the Canadian Dairy Commission (CDC), the CDC announced that, effective February 1, 2004, the support prices for skim milk powder will increase from \$5.1966 to \$5.3928 per kilogram, and for butter, from \$6.1061 to \$6.2968 per kilogram. The higher support prices are expected to provide dairy producers with an increase in revenues of \$2.20 per hectolitre for industrial milk, or 3.5%. In January 2002, the CDC committed to cover the cost of production of 50% of Canadian producers by 2006. "Today's decision takes us closer to fulfilling our commitment" explained CDC Chairman, John Core. The assumed processor margin will also increase by 3.5%, or \$0.31 per hectolitre. A study commissioned by the CDC justifies this increase. The assumed processor margin represents the estimated costs of processing one hectolitre of milk into butter and skim milk powder. Support prices are the prices at which the CDC buys and sells butter and skim milk powder to balance seasonal supply and demand changes on the domestic market. Support prices are also used as references by provincial marketing boards to price milk sold to processors who manufacture dairy products such as butter, skim milk powder, cheese, yogurt and ice cream. The market impact of the increase will be influenced by many factors such as the implementation of the increase in the provinces, as well as manufacturing, transportation, distribution and packaging costs throughout the supply chain.

C\$79 MILLION DAIRY PRICE HIKE SIGNALS URGENT NEED FOR ACTION SAYS FOODSERVICE GROUP: According to the Canadian Restaurant and Foodservices Association (CRFA), Canada's supply managed dairy industry is milking restaurant owners and their customers for another C\$79 million a year with the announcement of an increase of almost 4% in the price of industrial milk, used to make cheese, yogurt, ice cream and other dairy products. Once again, the Canadian Dairy Commission (CDC) has increased prices without credible justification. In a press release, the CRFA said that the CDC is operating in violation of the CDC Act which requires a consultative committee of consumer and industry stakeholders to provide input on matters related to production and marketing of dairy products, but the committee has not existed since 1994. "The CDC's decision proves that they cannot be trusted to be objective. The decision today is neither reasonable nor credible, and Canadian

consumers deserve better," says Stephanie Jones, Vice President of Food Supply for the 17,000-member Canadian Restaurant and Foodservices Association. The CRFA will be asking newly appointed Minister of Agriculture and Agri-Food Bob Speller to immediately act on recommendations of the Auditor General and appoint a consultative committee. "Today's price hike adds to mounting evidence that the domestic price of Canadian dairy products is artificially inflated and completely unjustified," says Jones.

DAIRY PROCESSORS ASSOCIATION OF CANADA FORMED: The December 15 edition of *Agriweek* reported that a new trade organization of Canadian dairy processing companies, the Dairy Processors Association of Canada, has been formed by large dairy food firms. The industry has 292 plants in Canada and employs 26,000, but 71% of all the milk in Canada is handled by three companies.

GEORGIAN BAY MILK CO. APPEAL TO BE HEARD BY ONTARIO TRIBUNAL: The case of 24 Ontario dairymen who are producing milk without marketing board quotas for sale directly to a processor in Michigan is still alive, despite efforts of the Provincial marketing board to stop them, according to the December 15 *Agriweek*. An appeal by Georgian Bay Milk Co. will be heard by the provincial Farm Products Marketing Tribunal, which adjudicates disputes involving marketing boards. The company wants its case referred to the federal trade department to determine if its operation is consistent with a World Trade Organization decision in 2001 holding that Canadian milk exports which involve marketing boards in any way are in effect subsidized.

CANADIAN TRANSPORTATION AGENCY RULES DEMURRAGE NOT SUBJECT TO REVENUE CAP: According to the December 15 edition of *Agriweek*, the Canadian Transportation Agency (CTA) reversed an earlier decision and ruled that no part of demurrage revenue earned by Canadian Pacific Railway in the grain haul is subject to the grain revenue cap. Demurrage revenue is earned when the railways assess extra charges when loading and unloading conditions are not met by shippers. In resisting the application, shippers argued that the railways often apply demurrage charges when delays are not caused by shippers. The Canadian Wheat Board was enraged at the decision. The amount at issue is about \$63,000 for the last two crop years.

NEW TRADE MINISTER SPEAKS OUT ON U.S. SOFTWOOD INJURY DETERMINATION: In a December 16 press release from the Canadian Department of Foreign Affairs and International Trade (DFAIT), Canada's new International Trade Minister Jim Peterson, said "We regret that the ITC has come back with a determination that maintains its threat of injury finding. Canada does not agree with this determination." He was commenting on the U.S. International Trade Commission's recent determination that asserted Canadian softwood lumber exports threatened to injure the U.S. softwood lumber industry. Peterson said that Canada will be reviewing the new determination and consulting with the provinces and industry prior to deciding on the next course of action. Canada believes that a proper determination will find that Canadian softwood lumber exports did not threaten to cause injury to U.S. producers and therefore that there is no basis for the duties currently imposed on Canadian exports.

FIRES AND BEETLES LEAD TO INCREASED HARVEST in B.C.: The B.C. Ministry of Forests has announced that the annual harvest in the Kamloops timber supply area will be increased to deal with the recent devastation resulting from wildfires and the mountain pine beetle infestation. The temporary increase of about 1.67 million m³ a year for three years is effective January 1, 2004 and includes: (1) Up to 670,000 m³ a year to harvest timber damaged by the McLure, McGillivray, Venables Valley, Vermillion Creek and Strawberry Hill wildfires; and (2) Up to 1 million m³ a year aimed at control of the mountain pine beetle infestation and to harvest trees killed by the beetles. For the last several years, B.C. has

increased the cut level to allow more aggressive management of the mountain pine beetle epidemic in new infested areas and along the leading-edge. The recent increase also allows fire-damaged timber to be harvested while it still has its full economic value and, in turn, speed up the reforestation of these areas." The Kamloops timber supply area, covering about 2.7 million hectares in B.C.'s southern Interior, currently has an allowable annual cut of about 2.68 million m³, which took effect January 1, 2003. Within this area, summer wildfires in 2003 burned more than 56,200 hectares. Recent surveys show the mountain pine beetle epidemic has affected almost 35,000 hectares of its forested land and continues to almost double every year.

Find FAS on the World Wide Web:

Visit our headquarters' home page at <http://www.fas.usda.gov> for a complete listing of FAS' worldwide agricultural reporting.

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA3085	This Week in Canadian Agriculture, Issue 45	12/16/2003
CA3084	Strawberry Market Update	12/16/2003
CA3083	Solid Wood Products Annual Report	12/17/2003
CA3081	This Week in Canadian Agriculture, Issue 44	12/05/2003
CA3080	Peanut Sector Report	11/28/2003

VISIT OUR WEBSITE: The FAS/Ottawa website is now accessible through the U.S. Embassy homepage. To view the website, log onto <http://www.usembassycanada.gov>; click on Embassy Ottawa offices, then Foreign Agricultural Service. The FAS/Ottawa office can be reached via e-mail at: agottawa@usda.gov